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ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 SSO-00 INRE-00 NSCE-00

NSC-05 L-03 FRB-03 OMB-01 TAR-01 SP-02 AGR-05 AID-05

CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02 SIL-01

STR-04 TRSE-00 CIEP-01 CEA-01 AF-06 ARA-06 EA-07

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FM USMISSION GENEVA

TO SECSTATE WASHDC IMMEDIATE 6010

INFO AMEMBASSY LONDON IMMEDIATE

USMISSION OECD PARIS

C O N F I D E N T I A L GENEVA 7361

LONDON FOR DEPUTY ASST SEC KATZ

OECD FOR E. ALLEN WENDT

E.O. 11652: GDS

TAGS: UNCTAD EAGR ETRD

SUBJECT: UNCTAD COCOA: STATUS OF NEGOTIATIONS

REF: STATE 225079

SUMMARY. COCOA CONFERENCE OFF TO FAST START. ALL ADMINISTRATIVE DETAILS DECIDED ARLY IN WEEK. BOTH PRODUCERS AND CONSUMERS HAVE SHOWN STRONG INTEREST IN US VIEWS. US BRIEFED CONSUMERS CAUCUS AND MAJOR PRODUCERS ON OUR IDEAS. CONSUMERS APPEAR RELUCTANT TO CONSIDER MAJOR CHANGES. PRODUCERS MORE RECEPTIVE BUT NEED TIME TO DIGET US IDEAS. END SUMMARY.

1. COCOA CONFERENCE HAS GOTTON OFF TO FAST START IN FIRST WEEK. MOST ADMINISTRATIVE DETAILS HANDLED IN FIRST TWO
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DAYS WITH LAI OF MALAYSIA ELECTED CONFERENCE CHAIRMAN;

MADDEN OF UK, CHAIRMAN OF ECONOMIC COMMITTEE AND AMOH OF GHANA, CHAIRMAN OF ADMINISTRATIVE/LEGAL COMMITTEE. MUSGROVE OF CANADA IS CHAIRMAN OF CONSUMERS GROUP AND NEE OF NIGERIA, CHAIRMAN OF PRODUCERS.

2. PLENARY SESSIONS MONDAY AND TUESDAY HEARD OPENING STATEMENTS BY EC, US, FAO (VITON), CUBA, JAPAN, MEXICO AND SWITZERLAND. US STATEMENT (GENEVA 7280) EMPHASIZED OUR INTEREST IN PURSUING SERIOUS NEGOTIATIONS FOR WORKABLE AGREEMENT BUT NOTED US CANNOT SAY WHETHER IT WILL BE ABLE TO SIGN AN AGREEMENT UNTIL THE USG HAS HAD OPPORTUNITY FOR COMPREHENSIVE REVIEW AND CONSULTATION ON FINAL TEXT.

3. OTHER CONSUMERS SHOWED EARLY INTEREST IN NATURE OF US INTENTIONS. IT APPEARS MEMBER CONSUMING COUNTRIES RESIGNED TO CONTINUING AGREEMENT IN ITS PRESENT FORM AND THEIR CHIEF PREOCCUPATION IS LEVEL OF PRICES IN NEW AGREEMENT. EC COUNTRIES ARE ATTEMPTING TO DEVELOP COMMON POSITION ON PRICE ISSUE.

4. FIRST CONSUMER CAUCUS HELD AFTERNOON OF WEDNESDAY, SEPT 24. AT SUGGESTION OF CONSUMER CHAIRMAN AND SEVERAL OTHERS, US AGREED TO GIVE US VIEWS ON NEW AGREEMENT, MAKING CLEAR US NOT MAKING A PROPOSAL. TO AVOID DISTORTED REPORTING OF US VIEWS TO PRODUCERS FROM FRIENDS IN THE CONSUMER CAUCUS (E.G., COLOMBIA AND CHILE), US SET UP MEETING WITH "BIG FIVE" PRODUCERS IMMEDIATELY AFTER CAUCUS. PRODUCERS INVITED WERE GHANA, NIGERIA, IVORY COAST, BRAZIL AND CAMEROON.

5. SPEAKING FROM NOTES DRAWN FROM INSTRUCTIONS, US DEL FIRST TOLD CONSUMERS AND LATER PRODUCERS THAT US BELIEVES COCOA AGREEMENT MUST BE TECHNICALLY FEASIBLE, FLEXIBLE AND NON-DISRUPTIVE TO FUNDAMENTAL MARKET FORCES; PRESENT AGREEMENT DOES NOT APPEAR TO MEET THESE CRITERIA. US SAID QUOTA SYSTEM IN PRESENT AGREEMENT IS TOO RIGID, INFLEXIBLE AND PROBABLY CAN'T ACCOMPLISH PURPOSES INTENDED. US ILLUSTRATED POINT WITH THEORETICAL EXAMPLE OF OPERATION OF PRESENT CONFIDENTIAL

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SYSTEM WHICH INDICATED AUTOMATIC QUOTA CUT OF 5 PERCENT COULD RESULT IN PRICE RISE OF 25 PERCENT. US POINTED OUT THAT IF QUOTA SYSTEM WERE TESTED AND OUR ANALYSIS IS RIGHT, COUNCIL HAS NO AUTHORITY TO MODIFY THIS MISTAKE FOR THE TERM OF THE AGREEMENT.

6. US ALSO NOTED PROBLEMS WITH NARROW PRICE BAND, INDICATOR PRICE SYSTEM AND OTHER INFLEXIBLE PROVISIONS

OF PRESENT AGREEMENT. US SUGGESTED AGREEMENT MIGHT BE IMPROVED BY ELIMINATION OF QUOTA SYSTEM AND SUBSTITUTION OF A BUFFER STOCK, OPERATING IN THE OPEN MARKET. US NOTED A CONFERENCE PAPER HAD PROPOSED INVESTIGATION OF SUCH AN APPROACH AND SAID WE WOULD BE WILLING TO PARTICIPATE IN ANY SUCH STUDY.

7. INITIAL REACTION OF CONSUMERS WAS CONCERN THAT US THINKING IN TERMS OF MAJOR CHANGES TO PRESENT AGREEMENT WHICH NOT COVERED BY THEIR INSTRUCTIONS. SEVERAL CONSUMER REPS DOUBTED NEGOTIATION OF MAJOR CHANGES COULD BE ACCOMPLISHED IN TIME FRAME.

8. INITIAL PRODUCER REACTION TO US BRIEFING WAS MORE RECEPTIVE. QUESTIONS FOCUSED MORE ON SUBSTANCE THAN TIMING. NIGERIA ASKED WHETHER US WOULD SUBMIT IDEAS AS FORMAL PROPOSAL. US SAID NO, OUR INSTRUCTIONS WERE TO SEE IF OTHERS WERE RECEPTIVE TO OUR IDEAS. WE WOULD LIKE TO SIT DOWN WITH OTHER MEMBERS TO STUDY THEM SERIOUSLY, WITHOUT DISRUPTING CONFERENCE. ICCO EXECUTIVE DIRECTOR HACKMAN, WHO ATTENDED MEETING WITH PRODUCERS, SAID HE WOULD BE WILLING TO HEAD A SMALL TECHNICAL STUDY GROUP. US SAID WE WOULD BE WILLING TO PARTICIPATE.

9. AT THURSDAY MEETING OF ECONOMIC COMMITTEE, CHAIRMAN (MADDEN) ANNOUNCED CONSULTATIONS PREVIOUS DAY HAD PRODUCED SEVERAL NEW IDEAS WHICH MERITED CLOSER EXAMINATION. HE PROPOSED SMALL WORKING GROUP TO REVIEW THEM. PRODUCERS APPOINTED NIGERIA, GHANA, IVORY COAST, BRAZIL AND COCOA PRODUCERS ALLIANCE REP. CONSUMERS REPRESENTED BY FRG, NETHERLANDS, EC REP, CANADA, SWITZERLAND AND US. MADDEN CHAIRED GROUP. CONFIDENTIAL

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10. FIRST SESSION OF WG LARGELY DEVOTED TO DETAILED QUESTIONING OF US IDEAS ON BUFFER STOCK OPERATIONS. US DEL PREFACED REMARKS BY STATING HE WANTED TO MAKE CLEAR THAT HE HAD NO AUTHORITY TO PRESENT A PROPOSAL. US INSTRUCTIONS ARE TO DISCUSS OUR IDEAS WITH OTHER MEMBERS, GET THEIR IDEAS AND REPORT BACK. US DOES NOT INTEND TO FOLLOW DISRUPTIVE OR DELAYING TACTICS. RATHER WE INSTRUCTED TO GET EARLY READING ON VIEWS OF OTHERS.

11. QUESTIONS FROM PRODUCERS INDICATED LITTLE UNDERSTANDING OF HOW BUFFER STOCK MIGHT OPERATE TO THEIR ADVANTAGE. CONSUMERS IM MEETING SHOWED LITTLE ENTHUSIASM FOR BUFFER STOCK CONCEPT. THROUGHOUT

SESSION US EMPHASIZED NEED FOR INCREASED FLEXIBILITY,
WIDER PRICE RANGE AND MORE VIABLE ECONOMIC MECHANISMS
THAN IN PRESENT AGREEMENT. WG WILL MEET AGAIN FRIDAY
P.M. TO EXAMINE SHORTCOMING OF PRESENT AGREEMENT
STRESSED BY US IN EARLIER PRESENTATION.

12. COMMENT: AT THIS POINT IT APPEARS THAT MOST
CONSUMERMEMBERS ARE COMMITTED TO STRUCTURE OF PRESENT
AGREEMENT. SEVERAL IN EC HAVE SUGGESTED US FLOATING
IDEAS FOR MAJOR REVISIONS TO DELAY NEGOTIATIONS AND
PUSH CONCLUSION OF NEW AGREEMENT OVER TO NEXT YEAR.
FRG DEL TOLD US PRIVATELY THEY LIKE US APPROACH
BUT TIME TOO SHORT TO OBTAIN REVISED INSTRUCTIONS AND
COMPLETE NEGOTIATIONS. PRODUCERS APPEAR TO TAKE US
IDEAS SERIOUSLY, BUT NEED MORE TIME TO THINK THEM
THROUGH. WE UNDERSTAND FROM US TRADE ADVISORS, THAT
THE TRADE ADVISORS OF A NUMBER OF OTHER DELEGATIONS,
INCLUDING BRAZIL, ARE FAVORABLY IMPRESSED WITH BUFFER
STOCK IDEA AND MAY SEEK TO INFLUENCE THEIR DELEGATIONS.
IN ANY EVENT, IT WILL PROBABLY BE NEXT WEEK BEFORE
WE RECEIVE ANY CONSIDERED REACTIONS. DALE

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